

JOINT MEETING SDRS BOARD OF TRUSTEES AND RETIREMENT LAWS COMMITTEE

November 15, 2011

The Board of Trustees of the South Dakota Retirement System held its joint meeting with the Retirement Laws Committee on November 15, 2011. The meeting began at 1:00 p.m. at the South Dakota Investment Council Office, Sioux Falls, South Dakota.

BOARD MEMBERS IN ATTENDANCE:

Elmer Brinkman, Chair
Laurie Gustafson
James Hansen
James Johns
Louise Loban
Darwin Longieliere
Bonnie Mehlbrech
Dave Merrill
Kent Osborne
KJ Peterson
Eric Stroeder
Sandy Zinter
Matt Clark, Ex Officio

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Board members Karl Alberts, Steven Caron, Jason Dilges and Justice Steve Zinter were absent.

RETIREMENT LAWS COMMITTEE MEMBERS IN ATTENDANCE:

Representative Manny Steele
Representative Patrick Kirschman
Representative Tad Perry
Representative Hal Wick
Senator Bruce Rampelberg
Senator Tom Nelson
Senator Billie Sutton
Senator Larry Tidemann

Representative Marc Feinstein and Senator Angie Buhl were absent.

OTHERS IN ATTENDANCE:

Hugh Bartels, SDIC
Doug Fiddler, Buck Consultants
Jarrod Johnson, SDIC
Mike Keeley, SASD
Jim Means, SDIC
Annie Mehlhaff, LRC
Terry Miller, LRC
Tammy Otten, SDIC
Paul Schrader, Consultant
Dave Slishinsky, Buck Consultants
Wes Tschetter, SDIC
Rob Wylie
Travis Almond
Susan Jahraus
Michelle Mikkelsen
Damian Prunty
Jane Roberts
Jacque Storm

For continuity, these minutes are not necessarily in chronological order.

AGENDA ITEM 2 **SDRS FINANCIAL STATEMENTS** **FOR THE PERIOD ENDING JUNE 30, 2011**

Summary of Presentation

Mr. Rob Wylie, SDRS Executive Director/Administrator, and Ms. Jane Roberts, SDRS Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2011. Ms. Roberts stated that there was \$199 million in total contributions and \$372 million in total benefits and refunds paid. As of June 30, 2011, stated Ms. Roberts, SDRS had nearly \$8 billion in assets.

Board Action

No action was necessary.

AGENDA ITEM 3
SDRS ACTUARIAL VALUATION
FOR THE PERIOD ENDING JUNE 30, 2011

Summary of Presentation

Mr. Dave Slishinsky, Principal and Consulting Actuary, Buck Consultants and Mr. Doug Fiddler, Senior Consultant, Retirement Actuary, Buck Consultants, presented the SDRS Actuarial Valuation for the period ending June 30, 2011.

Mr. Slishinsky explained the purpose and uses of the actuarial report. He stated that it can be used as a detection of changes from the prior year and as an early warning system for potential funding problems.

Mr. Fiddler stated that the investment return for SDRS was 25.8 percent for fiscal year 2011. That compares to an investment return of 18.7 percent for fiscal year 2010 and added and additional \$1.4 billion in assets to the plan.

Mr. Fiddler stated that as of June 30, 2011, the actuarial value of assets were 96 percent and the market value of assets were 103 percent. That compares to 96 percent and 88 percent, respectively, for the period ending June 30, 2010.

The cushion, advised Mr. Fiddler, has increased to \$502.5 million at June 30, 2011, from a negative \$623 million at June 30, 2010.

Mr. Fiddler discussed the history of the membership of SDRS. He stated that:

- The active membership of SDRS is just over 38,000, down from 2010;
- The average age of members is 45.9 years; and
- The average credited service increased to 11.4 years.

Mr. Fiddler advised that the average compensation for active members was \$38,725.

The conclusions of the 2011 Actuarial Valuation are as follows:

- System investment experience was very favorable for the year;
- Liability experience was slightly favorable for the year;
- the SDRS funded status once again meets target and compares very favorably with similar systems;
- Board legislation and outstanding investment performance in FY2010 and FY2011 has brought SDRS back into actuarial balance and near the long-term funding goals target of the Board of Trustees;
- The market value of assets now exceeds the actuarial value, therefore creating a cushion;
- Current normal costs continue to be high percent of actual contributions;

- the reserve for funding of long-term benefits goals is negative \$764M as of June 30, 2011, and improvement from negative \$1,262M at June 30, 2010; and
- The cushion at June 30, 2011, of \$502M is greatly improved compared to negative \$623M at June 30, 2010.

Board Action

IT WAS MOVED BY MR. MERRILL, SECONDED BY DR. HANSEN, TO ACCEPT THE ACTUARIAL VALUATION AS PRESENTED BY REPRESENTATIVES OF BUCK CONSULTANTS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4 **2012 LEGISLATIVE CONSIDERATIONS**

Summary of Presentation

Mr. Wylie and Ms. Jacque Storm, SDRS General Counsel, explained the potential legislation for the 2012 Legislative Session. They stated that the following three items may be brought before the Retirement Laws Committee:

- Roth designated accounts in the 457 plan;
- SDRS technical corrections and clarifications to statutes; and
- Supplemental retirement plan and special pay plan technical corrections and clarifications to statutes.

Board Action

No action was necessary

AGENDA ITEM 5 **SETTING THE FISCAL YEAR 2013 IMPROVEMENT FACTOR**

Summary of Presentation

Mr. Wylie stated that effective July 1, 2010, subdivision (41) of § 3-12-47 regarding the “Improvement factor” was amended. It states that the annual increase shall be established by the Board for each fiscal year, based on the Consumer Price Index and the System’s market value funded ratio. After review of the improvement factor calculation process, it is recommended that the FY2013 improvement factor (COLA) be set at 3.1%.

Board Action

IT WAS MOVED BY DR. HANSEN, SECONDED BY MS. GUSTAFSON, TO SET THE IMPROVEMENT FACTOR FOR FISCAL YEAR 2013 AT 3.1 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 6
REVIEW OF SDRS DEMOGRAPHIC FACT SHEET

Summary of Presentation

Ms. Susan Jahraus, SDRS Internal Audit/Compliance Manager, reviewed the SDRS demographic fact sheet. The report compared fiscal and membership statistics from FY2000 to FY2011.

In FY2000, stated Ms. Jahraus, there were 58,540 total SDRS members. In FY2011, that number grew to 74,148 with the largest increase being in benefit recipients, which grew from 14,928 to 21,457.

Ms. Jahraus stated that the average age of active members in FY2000 was 43.7. That average has increased to 45.9 in FY2011. In addition, the number of active members eligible for retirement with full benefits in the next five years increased from 20.5 percent of the active members in 2007 to 24.1 percent in 2011. The active members over the age of 50 (Class A) and 45 (Class B) increased from 39 percent of the total active members in FY2007 to 42.5 percent in FY2011.

Board Action

No action was necessary.

AGENDA ITEM 7
OLD/NEW BUSINESS

Summary of Presentation

Mr. Wylie stated that due to the Joint meeting being held in November the December meeting would only need to be a one day meeting.

Board Action

No action was necessary.

ADJOURNMENT

IT WAS MOVED BY MR. MERRILL, SECONDED BY MR. OSBORNE, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE DECLARED ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Respectfully Submitted,

Robert A. Wylie
Executive Director/Administrator